



July 13, 2006

Tax Gap Report

The latest information on America's growing tax gap from U.S. Senator Max Baucus (D-Mont.), Ranking Member, U.S. Senate Finance Committee

NOMINEE FOR TAX POLICY POST AT TREASURY DEPT. PRESSED ON SHELTERS AT CONFIRMATION HEARING

At his confirmation hearing for the post of Deputy Treasury Secretary for Tax Policy today, Eric Solomon was questioned by Senator Max Baucus on IRS's failure to use tax shelter disclosure rules and stiff penalties designed by Congress to help close the annual \$345 billion tax gap – the gulf between taxes legally owed and taxes collected in a timely fashion. Solomon has worked in the Office of Tax Policy since 1999. The new laws aimed at ending the abusive use of shelters to hide income and avoid tax payments were enacted in 2004. Baucus noted that Solomon worked with the Finance Committee to develop the new shelter laws.



“Do you know how many penalties the IRS has imposed?” Baucus asked. **“The answer is zero.”**

Solomon said he believed the first purpose of such penalties is deterrence, and that he does believe the penalties currently in law are deterring the abusive use of tax shelters. He also noted that some corporate documents subject to the law are still being filed.

New tax shelter laws were created in the American Jobs Creation Act of 2004 (**P.L. 108-357, Sections 811-822.**) They include penalties as high as \$10,000 per day for incomplete lists of shelter investors. IRS officials have indicated that \$10,000-per-day penalties are currently owed on as many as 30 incomplete investor lists.

SOLOMON AGREES TAX GAP PLAN NEEDED, BUT GIVES NO TIMETABLE

Also today, Baucus asked Solomon to commit to ensuring the delivery by the end of this fiscal year of a comprehensive IRS plan to close the tax gap. At an April Finance Committee hearing, IRS Commissioner Mark Everson committed to providing the IRS strategy by September 30. Today, Solomon said he shared Baucus's concern about the tax gap but would not promise delivery of a comprehensive plan by that time. Baucus charged that the IRS has been timid on finding and implementing tax gap solutions, and expressed serious reservations about Solomon's commitment as well.

“I don't get the sense that you're that concerned about this problem,” said Baucus. **“I don't hear the passion from you that you're fighting for American taxpayers to solve this thing. I don't hear it in the tone of your voice.”**

Solomon reiterated his concern about the tax gap. Baucus said the evidence of that concern should be a “crackerjack” report on tax gap solutions by September 30. Today, Baucus and Finance Committee Chairman Chuck Grassley (R-Iowa) released a June 22, 2006 letter in which they detailed to Commissioner Everson their request for the IRS report. A copy of their June 22 letter can be viewed at <http://finance.senate.gov/sitepages/baucus.htm>.

Every year, \$345 billion in legally owed taxes go uncollected in the U.S. Closing that “tax gap” will significantly strengthen America's economy. Max Baucus has spearheaded efforts to reduce factors contributing to America's growing tax gap.